

Message Text

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TO AMEMBASSY GEORGETOWN NIACT IMMEDIATE

C O N F I D E N T I A L STATE 196737

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E.O. 11652:GDS

TAGS: EINB, EMIN, GY

SUBJECT: NATIONALIZATION OF REYNOLDS

1. ASSISTANT SECRETARY ENDERS AND OPIC PRESIDENT MAYS MET SEPTEMBER 6 WITH REYNOLDS REPRESENTATIVES INCLUDING MCCONNELL, SIKOROVSKY, GALEA, AND ROBERTS TO DISCUSS LATEST GOG INVITATION TO NEGOTIATE ON TAXES AND COMPENSATION. MCCONNELL EMPHASIZED THAT REYNOLDS IS UNWILLING TO ENTER NEGOTIATIONS ON COMPENSATION PRIOR TO GOG INITIATION OF NATIONALIZATION STEPS, ON THE GROUNDS THAT SUCH NEGOTIATIONS IMPAIR THE INVOLUNTARY NATURE OR APPEARANCE OF ANY TAKE OVER AND COULD THUS ADVERSELY AFFECT COMPANY'S LARGER INTEREST IN JAMAICAN NEGOTIATIONS. THE COMPANY IS, HOWEVER, PREPARED TO CONTINUE TALKS WITH THE GOG AS LONG AS ITS POSITION ON COMPENSATION DISCUSSION IS MADE CLEAR IN ADVANCE, I.E. REYNOLDS IS NOT PREPARED TO NEGOTIATE A SALE. ACCORDING TO ROBERTS, JACK CONTACTED REYNOLDS GUYANA MANAGER, WAGNER LAST NIGHT AND SUMMONED REYNOLDS FOR A MEETING ON TUESDAY, CONFIDENTIAL

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SEPTEMBER 10. MCCONNELL INFORMS US THAT HE DOES NOT BELIEVE WAGNER IS THE APPROPRIATE REPRESENTATIVE FOR THESE DISCUSSIONS AND PROPOSES, THEREFORE, TO SEND ROBERTS TO GEORGETOWN AS SOON AS HE CAN CONCLUDE PREVIOUSLY SCHEDULED DISCUSSIONS IN HAITI STARTING SEPTEMBER 10. ROBERTS FIGURES HE MUST ALLOW FOR AT LEAST TWO DAYS IN HAITI.

2. WE ARE SYMPATHETIC TO REYNOLDS DESIRE TO EMPHASIZE INVOLUNTARY ASPECT OF ANY NATIONALIZATION AND WE BELIEVE TODAY'S MEETING HELPFUL IN FINDING WAYS TO DO THIS THAT INVOLVE LESS ACRIMONY AND HAZARD TO EVENTUAL COMPENSATION ARRANGEMENTS THAN WOULD HAVE BEEN THE CASE WITH POSSIBLE REJECTION OF GOG INVITATION AS INDICATED BY SIKOROVSKY COMMENTS LAST WEEK.

3. WE REMAIN CONCERNED THAT PRIME MINISTER BURNHAM APPARENTLY INTENDS TO PROCEED WITH BOTH TAX ACTION AND NATIONALIZATION, WITH THE INTENTION OF DEDUCTING TAX BILL FROM COMPENSATION. REYNOLDS APPEARS CONVINCED OF INEVITABILITY OF NATIONALIZATION BY YEAR END, SO THERE APPEARS NO CHANCE THAT REYNOLDS WOULD FIND IT IN ITS INTEREST TO PAY MORE THAN TOKEN AMOUNT OF INCREASED TAXES FOR REMAINDER 1974. NEITHER USG NOR THE COMPANY CAN RECOGNIZE RETROACTIVE TAXES OR TAXES APPLIED TO INFLUENCE COMPENSATION AS COMPRISING PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION FOR NATIONALIZATION. WE ARE CONVINCED,

THEREFORE, THAT ONE FURTHER EFFORT MUST BE MADE TO DISSUADE GOG FROM PROCEEDING WITH TAX LEGISLATION IN CONNECTION WITH NATIONALIZATION ACTION.

4. AMBASSADOR IS REQUESTED, THEREFORE, TO SEEK EARLY

APPOINTMENT WITH FOREIGN MINISTER RAMPHAL TO MAKE FOLLOWING POINTS, WITH REQUEST THAT THEY BE CONVEYED TO PRIME MINISTER.

-- USG RECOGNIZES THAT NATIONALIZATION OF REYNOLDS IS WITHIN SOVEREIGN POWER OF GOG.

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-- GIVEN GREAT DIFFICULTY GUYANA WILL INEVITABLY FACE IN MEETING INTERNATIONALLY RECOGNIZED STANDARDS OF COMPENSATION, HOWEVER, WE BELIEVE GOG SHOULD CONSIDER WHETHER NATIONALIZATION IS THE PRUDENT COURSE AT THIS POINT.

-- THE COMPANY WOULD NOT WISH TO ENTER INTO NEGOTIATIONS

ON COMPENSATION PRIOR TO AN ACT OF NATIONALIZATION
WHICH THE COMPANY DOES NOT SEEK.

-- WE ASSUME THAT THE GOG WILL WANT TO CONSIDER IN MAKING
ITS DECISION THE FACT THAT NATIONALIZATION WOULD BE
FOLLOWED BY PRESENTATION TO GOG BY REYNOLDS OF A CLAIM FOR
COMPENSATION WELL IN EXCESS OF THE COMPANY'S DOLS. L4.3
MILLION MAXIMUM COVERAGE UNDER ITS OPIC INSURANCE, NOTING

THAT OPIC DID NOT COVER EARLIER REYNOLDS INVESTMENTS IN
GUYANA AND OPIC COVERAGE IS BASED ON BALANCE SHEET FIGURES
WHICH CAN BE LESS THAN REAL VALUE.

-- SHOULD THE GOG PROCEED WITH NATIONALIZATION, REYNOLDS
WOULD BE WILLING TO ENTER INTO PROMPT DISCUSSIONS OF
COMPENSATION ISSUES. OPIC WOULD BE PREPARED TO
PARTICIPATE IN ANY SUCH NEGOTIATIONS AS NEEDED.

-- THE USG IS BOUND TO SEEK PROMPT, ADEQUATE AND
EFFECTIVE COMPENSATION FOR THE COMPANY. WE CANNOT
RECOGNIZE RETROACTIVE TAXES OR TAXES APPLIED TO INFLUENCE
COMPENSATION AS COMPRISING ANY PART OF PROMPT, ADEQUATE
AND EFFECTIVE COMPENSATION.

-- REGARDLESS OF THE TIMING OF ANY ACTION BY THE
GOVERNMENT OF GUYANA, REYNOLDS IS ENDEAVORING TO SEND AN
APPROPRIATE TEAM TO GEORGETOWN FOR FURTHER DISCUSSIONS
WITH REPRESENTATIVES OF THE GOG. WE UNDERSTAND THAT
PRIOR COMMITMENTS IN OTHER NEGOTIATIONS PRECLUDE THE
COMPANY FROM SENDING AN APPROPRIATE TEAM BY TUESDAY,
SEPTEMBER 10 AS REQUESTED BY MINISTER JACK. WE EXPECT,
HOWEVER, THAT REYNOLDS WILL BE ABLE TO HAVE AN APPROPRIATE
TEAM IN GEORGETOWN BY THE END OF THE WEEK ENDING
SEPTEMBER 14 FOR DISCUSSIONS WITH WHATEVER REPRESENTATIVES
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THE PRIME MINISTER MAY DESIGNATE.

-- GOG SHOULD BE AWARE THAT THE COMPANY WILL TAKE THE
POSITION THAT IT CANNOT ENTER INTO NEGOTIATIONS ON
COMPENSATION QUESTIONS ARISING FROM A NATIONALIZATION
IT DOES NOT SEEK AND WHICH HAS NOT OCCURRED. KISSINGER

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*** Current Classification *** CONFIDENTIAL

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